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Report to Congressional Requesters

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TONGASS NATIONAL FOREST

Administration of Two Long-Term Alaskan Timber Contracts



94-23393



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Resources, Community, and
Economic Development Division

B-238114

February 21, 1990

The Honorable Sidney R. Yates, Chairman
The Honorable Ralph Regula, Ranking
Minority Member
Subcommittee on Interior
and Related Agencies
Committee on Appropriations
House of Representatives

In your March 10, 1989, letter, you raised questions about two long-term timber contracts in the Tongass National Forest. The contracts required private companies to harvest prescribed amounts of timber within agreed upon time frames during the 50-year contract life. Specifically, you expressed concern that considerable timber prepared for harvest by the Department of Agriculture's Forest Service either remained as unharvested timber (commonly referred to as timber backlog) or had been deleted from the companies' operating plans, resulting in additional effort and expense for the Forest Service.

On the basis of your concerns and subsequent agreements with your offices, we agreed to review the accuracy of the Forest Service's figures for the volume of¹

- timber actually harvested under the two contracts,
- timber deleted from the private companies' operating plans, and
- backlogged timber.

In addition, you asked us to identify and review the steps being taken by the Forest Service to improve its management of the timber program in the Tongass National Forest.

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Results in Brief

In July 1988, the Forest Service reported that more than 3.8 billion board feet² of Tongass timber had been prepared for the two contractors during the 11-year period 1977-87. The Forest Service reported that over 2.4 billion board feet of this timber had been harvested. We verified this figure to summary reports; however, we are unable to ensure

¹The requesters furnished us with data on the volume of timber harvested and deleted during the period 1977-87 and the backlog as of September 30, 1987, and we agreed to review the accuracy of these figures.

²A board foot is the equivalent of a piece of wood 1 inch thick, 1 foot wide, and 1 foot long.

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the accuracy of the figure because the Forest Service had not complied with all of its internal controls for documenting harvested timber volumes. Compliance with such controls is necessary to ensure that harvested timber is accounted for correctly.

For the same period, the Forest Service reported that 819 million board feet of timber had been deleted from the amounts that had been made available to the companies for harvest. We could not verify this amount primarily because the Forest Service's documentation and records were incomplete.

The Forest Service initially reported that the volume of timber backlog for the two contracts totalled 565 million board feet at the end of fiscal year 1987. In January 1989, the Forest Service completed obtaining and evaluating the detailed support for this figure and found that it was understated by 9 million board feet. We were able to verify the revised figure to supporting documentation.

The Forest Service has recently taken or proposed steps to improve its system of internal controls to better account for all timber that had been prepared for harvesting. These steps, when implemented, will help improve the timber program. We believe, however, that additional actions are needed to ensure that (1) forest supervisors comply with the internal controls for documenting harvested timber volumes and (2) the information needed to support and report changes in timber sale activities is accurately recorded.

Background

The Tongass National Forest, located in southeast Alaska, is the nation's largest national forest with over 16.7 million acres. Under the jurisdiction of the Forest Service, the Tongass is managed for multiple uses such as timber production, outdoor recreation, fish and wildlife habitat, and wilderness. The Forest Service's Region 10, headquartered in Juneau, Alaska, carries out the management responsibilities. Region 10 maintains three area offices and nine district offices to carry out the daily operational functions for the Tongass.

In the 1950s, the federal government awarded two 50-year contracts for the harvest of Tongass timber—one to the Ketchikan Pulp Company and the other to the Alaska Pulp Corporation.³ The contracts stipulate

³In addition to the two 50-year contracts, the Forest Service sells timber to other companies on a short-term basis. These sales are not addressed in this report.

that in return for developing and operating pulp mills, the two companies are guaranteed a total of about 13.3 billion board feet of harvestable timber over the life of the contracts. The contracts also require that an operating plan be prepared on a 5-year cycle for each company. The plans are to describe the timber to be prepared for harvest during each cycle. Currently, the 5-year operating plans cover the periods 1989-94 for the Ketchikan Pulp Company and 1986-90 for the Alaska Pulp Corporation.

Tongass Timber Program

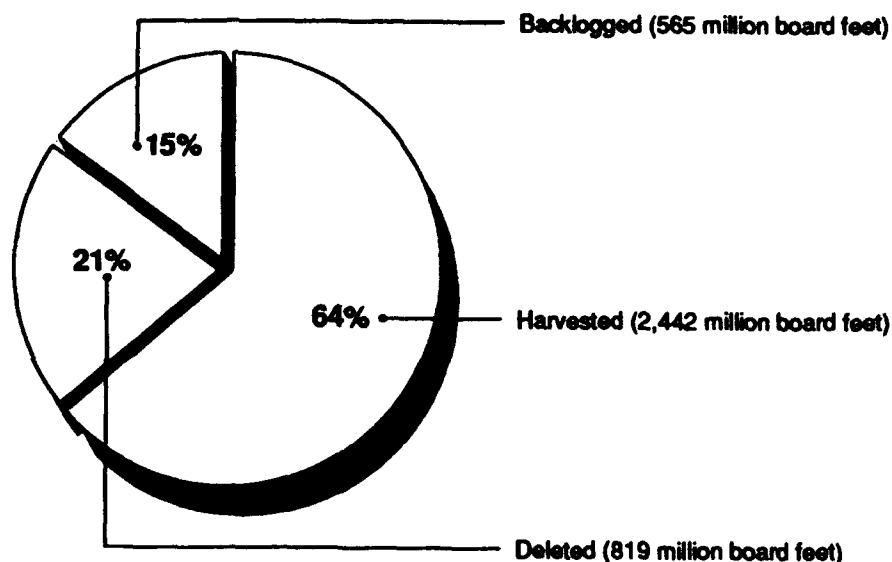
In preparing timber for harvest by the contractors, the Forest Service performs such activities as preparing environmental analyses required by the National Environmental Policy Act and documenting decisions, marking boundaries, estimating the volume of timber within the sale area, identifying road rights-of-way, surveying and designing roads, and identifying timber to be left to protect fish and wildlife habitats.

At the end of a 5-year operating period, the timber prepared for harvest will have been harvested, have been deleted from harvest, or remain as an unharvested backlog. These timber volumes are determined as follows:

- Timber harvested. The Forest Service determines the amount of timber harvested by log scaling, that is, measuring individual logs to determine the amount of usable material that can be manufactured from them. Most log scaling is done on a sample basis, with the results of randomly selected logs being projected to the entire harvest. The scaling is done by a third-party scaling organization that is independent of the Forest Service and the timber purchasers. On the basis of the results of the scaling, purchasers are billed for the value of the harvested timber.
- Timber deleted. The Forest Service determines the volume of timber deleted from harvest by reviewing and evaluating the need to redesign harvest areas due to other resource requirements, environmental or archaeological concerns, the impact of changed economic conditions, and the selection of land by Alaska natives.
- Unharvested timber backlog. The Forest Service determines the unharvested timber volume by reviewing sale unit records and subtracting the timber harvested and deleted from the total volume prepared for harvest.

The Forest Service reported that, for fiscal years 1977-87, more than 3.8 billion board feet of Tongass timber had been prepared for the two contractors. Figure 1 shows the disposition of this timber.

**Figure 1: Tongass Timber Volumes
Harvested, Deleted, and Backlogged**
(Fiscal Years 1977-87)



Source: Prepared by GAO using Forest Service data.

The timber volumes in the data furnished by the Forest Service served as the basis for our examination.

Accuracy of the Volume of Timber Harvested Not Ensured

During fiscal years 1977-87, the Forest Service reported that more than 2.4 billion board feet of timber had been harvested under two 50-year contracts. We traced the reported harvested figure to the 1977-87 region 10 summary reports and verified the reported 1987 volume to supporting documentation. However, we were unable to ensure the accuracy of the reported figure because the Forest Service had not conducted all of the log accountability audits required by its internal control procedures.

Log scaling performed by a third-party organization determines the amount of timber harvested which is then used to bill the contractor. To help ensure that third-party scalers accurately determine harvested timber volumes, Forest Service policy requires the use of two internal control mechanisms. The main mechanism is unannounced "check scales." The Forest Service periodically makes unannounced checks to verify that the individual scalers are performing their functions properly. This check scaling determines whether third-party scalers are (1) complying with measuring and testing standards, (2) properly recording logs harvested, and (3) accurately measuring the volume harvested. If a check scale determines that a third-party scaler is not complying with scaling

standards, Forest Service policy requires that the Regional Forester develop procedures to resolve the problem.

An additional internal control mechanism is unannounced log accountability audits to be conducted at each district office every 2 years and at each area office every 3 years. These audits are designed to verify that all logs cut and removed from national forest lands are accounted for and presented for scaling and compliance with log export regulations. Log accountability audits ensure that, among other things, logs are properly marked, there is proper accountability over log receipt books, and tampering with the selection of sample log truck loads for scaling does not occur. In other words, log accountability audits are the first step to ensure that the Forest Service gets paid for logs harvested from federal land.

Our examination showed that although check scales were being performed and log accountability audits had been done at area offices, region 10 forest supervisors had conducted relatively few of the required periodic log accountability audits at the district offices between 1984 and 1988. Region 10 officials said their check-scaling procedures ensure that the 2.4 billion-board-foot figure of harvested timber is accurate. They said district office log accountability audits were not conducted because some districts had limited timber-scaling activities during that period. Although limited timber-scaling activities may have been done at some district offices, the Forest Service, in accordance with its policy, still needs to conduct the required biennial audits at district offices to provide the internal controls needed to ensure that there is a full accountability of logs harvested.

Volume of Timber Deleted Could Not Be Verified

On July 23, 1988, the Forest Service reported that 819 million board feet of Tongass timber had been deleted from the volume of timber prepared for harvest during fiscal years 1977-87 for a number of reasons. We could not verify the deleted volume primarily because Forest Service records were incomplete.

Region 10 officials said that records documenting the individual deletions should be at the districts responsible for the field work. However, district officials told us that (1) complete records may not be available for all prior operating periods, (2) the records that were maintained did not indicate specific reasons for deletions, and (3) the deleted volumes were based on available records, personal recollections, and estimations by regional and district staff. As a result, we were unable to verify that

either the individual deletions or the reported figure of 819 million board feet was correct.

Region 10 personnel did provide explanations for some of the individual deletions. For example, 54 million board feet of timber was deleted from the Alaska Pulp Corporation contract because the timber was on lands that were selected by Alaskan natives under provisions of the Alaska Native Claims Settlement Act.⁴ In another case, 254 million board feet of timber was deleted from the same contract because the Forest Service did not carry over unharvested timber from the 1976-81 operating period to the next operating period.

Further, included in the total amount of timber deleted was 218 million board feet that may not have existed due to an overestimate of the timber prepared for harvest. The volumes of timber prepared for harvest and included in the harvest plans were estimates based on statistical sampling procedures designed to predict the volumes with a sampling error of plus or minus 10 percent. According to region 10 officials, these sampling procedures resulted in overestimating the timber volumes in the areas to be harvested.

Deletions of timber can result in unnecessary costs to the government. Although some deletions may be justified—for example, deletions may be necessary to maintain habitat for fish and wildlife resources—keeping them to a minimum is imperative. Otherwise, unnecessary costs are incurred preparing that timber for harvest.

Timber Backlog Could Be Verified

Backlogged timber is timber the Forest Service has available for harvest but has not yet been harvested by the contractor. The Subcommittee expressed concern that in the past the Forest Service had a Tongass timber backlog that was too large; consequently, the Forest Service was spending money sooner than necessary to prepare the timber for harvest.

Forest Service officials told us that the Tongass timber backlog has been reduced slightly. In July 1988, the Forest Service reported that the backlog for the two contracts as of the end of fiscal year 1987 was 565 million board feet. In January 1989, region 10 personnel completed obtaining and evaluating the detailed support for this figure and found

⁴Under this act, passed by the Congress in 1971, Alaska natives were entitled to choose various parcels of federal land as partial settlement for their aboriginal claims to land in Alaska.

that it was understated by 9 million board feet. We reviewed the documentation for the revised volumes and found no discrepancies that would cause us to question their accuracy. According to region 10 officials, as of October 1989, the backlog had been reduced to 563 million board feet—456 million board feet for Ketchikan Pulp Company and 107 million board feet for Alaska Pulp Corporation.

Forest Service Actions to Improve Management of Tongass Timber

The Forest Service has recently proposed or taken action to account for the volume of timber harvested, minimize deletions, and control the amount of backlogs. Also, as a result of problems in documenting past timber sale activities on long-term sales, the Forest Service has taken action to improve this documentation. These actions are discussed in the following sections.

Accounting for Timber Harvested

To improve internal controls over the accuracy of actual timber harvest volumes, the Forest Service has expanded its use of log accountability audits. According to region 10 officials, because Tongass timber harvest activities have increased and now involve all ranger districts, the Regional Forester has required the forest supervisor at each of the three Tongass area offices to establish plans to complete a log accountability audit for each district office by no later than the end of 1989. However, according to region 10 officials, log accountability audits for six of the nine district offices had been completed.

Minimizing Deletions and Controlling Backlogs

One step the Forest Service has taken to minimize deletions and control backlogs is to limit the volume of timber prepared for harvest each year. Region 10 has established a goal of preparing for harvest only an amount sufficient to replace the volume of timber harvested by a contractor during the previous year. Data from recent years indicate that the Forest Service has come close to this goal. For example, in fiscal years 1988 and 1989, the Forest Service prepared a total of 498 million board feet of timber for harvest, whereas the two companies harvested a total of 500 million board feet thus reducing the backlog by 2 million board feet.

Changes addressing deletions have also been made or proposed to the two 50-year contracts. According to region 10 officials, administration of the Ketchikan Pulp Company contract has already been modified to generally carry over all timber prepared for harvest, but not harvested, into the next 5-year operating plan. The officials said modifications to

the Alaska Pulp Corporation contract have also been proposed to minimize deletions. The proposed modifications state that once timber has been designated for harvest, it must be harvested before additional timber is designated. In other words, timber cannot be substantially deferred for later harvest. These actions, when fully implemented, should help reduce future deletions and backlogs.

Documenting Timber Sale Activities

To improve its documentation of timber sales program activities, including deletions, the Forest Service has taken two actions. First, region 10 is using the Forest Service's Sale Tracking and Reporting System to record long-term timber sale preparation activities. This system is designed to document all timber sale preparation activities. Second, region 10 is developing a Unit Tracking System to record and monitor for each long-term sale area the units prepared for harvest, the volumes harvested, the volumes deleted, and the unharvested volumes. Region 10 officials believe the Unit Tracking System will provide them with an improved system of accountability. However, we believe that these systems should also document when and why deletions occur. Inclusion of this information will further enhance management's control over the use of federal resources in the Tongass National Forest.

Conclusions

The Forest Service's Region 10 has taken or proposed steps to control timber backlogs and minimize timber deletions from the two 50-year Tongass timber contracts. We believe that if region 10 complies with the harvest demand goal, modifies the Alaska Pulp Corporation contract, and prepares limited timber volumes as specified in the Ketchikan Pulp Company contract, it will be moving in the right direction for minimizing the volume of timber deleted and controlling the timber backlogged.

We believe that adhering to the requirements for district office log accountability audits is an internal control step essential to ensuring that harvested timber is accounted for accurately. While region 10 has taken steps to comply with this requirement in 1989, it has not complied in past years, and we believe that these audits should be performed every 2 years as required.

Region 10 has taken action to improve its process for documenting timber sale activities including the deletions. However, we believe that more needs to be done including adding information—such as reasons why deletions occurred in timber volumes reported, the volumes involved, and when the deletions occurred—to either the Sale Tracking

and Reporting System or the Unit Tracking System to ensure that future timber sale activities are documented.

Recommendations

Accordingly, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to ensure that, at the Tongass National Forest, (1) forest supervisors conduct log accountability audits at each district office every 2 years as required by Forest Service policy and (2) the information needed to document when and why timber sale deletions occur is accurately recorded in the agency records.

Forest Service officials reviewed a draft of this report and their comments have been incorporated where appropriate. As agreed with your offices, unless you release its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the appropriate Senate and House Committees; interested Members of Congress; the Secretary of Agriculture; the Chief of the Forest Service; the Director, Office of Management and Budget; and other interested parties. Our review was conducted in accordance with generally accepted government auditing standards. Appendix I contains the details on our objectives, scope, and methodology.

If you have questions about this report, please contact John W. Harman, Director, Food and Agriculture Issues, at (202) 275-5138. Major contributors to this report are listed in appendix II.



J. Dexter Peach
Assistant Comptroller General

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Objectives, Scope, and Methodology

In a March 10, 1989, letter, both the Chairman and the Ranking Minority Member of the Subcommittee on Interior and Related Agencies, House Committee on Appropriations, asked us to provide them with certain information relating to two long-term contracts for Tongass timber. Specifically, the representatives were concerned that the volume of timber available for harvest under two 50-year contracts is uncertain because timber prepared by the Forest Service for harvest has not been harvested and the unharvested timber is being deleted from harvest—thereby resulting in unnecessary timber sale preparation expenses. On the basis of the request and discussions with the Subcommittee staff, we agreed to review

- the timber volume harvested for fiscal years 1977-87,
- the timber volume deleted for fiscal years 1977-87,
- the unharvested timber backlog volume at the end of fiscal year 1987, and
- the steps being taken by the Forest Service to improve accountability for harvested timber, minimize deletions, and control backlogs.

To obtain the requested information, we reviewed and analyzed Forest Service files, records, and reports. However, Forest Service officials were unable to provide us with adequate data to verify the accuracy of the timber volume deleted for fiscal years 1977-87.

Regarding the other information we agreed to provide, we

- verified the accuracy of the unharvested timber backlog volume by tracing the volume to sale unit records, maps, and supporting documentation;
- traced the timber volume harvested for fiscal years 1977-87 to Timber Supply and Demand Reports and Timber Cut and Sold Reports and further traced the fiscal year 1987 harvest volume to appropriate supporting documentation; and
- reviewed the Forest Service's log scaling and log accountability policies and its region 10 check-scaling reports and log accountability audit reports.

To obtain the documentation that supported the reported timber volumes, we interviewed Forest Service headquarters and region 10 officials. In addition, we interviewed an official with the Southeast Alaska Natural Resources Center, a conservation organization.

Appendix I
Objectives, Scope, and Methodology

We performed our review from May to October 1989. Our work was performed principally at region 10 headquarters in Juneau, Alaska. We also toured the Thorne Bay log scaling and sorting yard located in Prince of Wales Island. Our review was conducted in accordance with generally accepted government auditing standards.

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